# The Edna McConnell Clark Foundation

Consolidated Financial Report
September 30, 2016 and 2015

**Contents**

# Independent Auditor's Report

To the Board of Trustees
The Edna McConnell Clark Foundation

**Report on the Financial Statements**
We have audited the accompanying consolidated financial statements of The Edna McConnell Clark Foundation (the Foundation), which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Edna McConnell Clark Foundation as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Chicago, Illinois
February 27, 2017

**The Edna McConnell Clark Foundation**

**Consolidated Statements of Financial Position**
**September 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 37,384,931 | $ 43,381,887 |
| Interest, dividends and other receivables | 128,390 | 293,301 |
| Investments, at fair value | 909,338,214 | 934,626,911 |
| Other assets | 150,920 | 1,536,323 |
| Property and equipment, net | 2,006,259 | 2,240,681 |
| | $ 949,008,714 | $ 982,079,103 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Grants payable | $ 180,000 | $ 105,427 |
| Deferred federal excise tax | 5,422,148 | 5,777,164 |
| Other liabilities | 388,746 | 236,100 |
| | 5,990,894 | 6,118,691 |
| Net assets: | | |
| Unrestricted | 943,017,820 | 975,960,412 |
| | $ 949,008,714 | $ 982,079,103 |

See notes to consolidated financial statements.

**The Edna McConnell Clark Foundation**

**Consolidated Statements of Activities**
**Years Ended September 30, 2016 and 2015**

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Total** | Unrestricted | Temporarily Restricted | Total |
| Investment return: | | | | | | |
| Net realized gains | **$ 43,546,944** | **$ -** | **$ 43,546,944** | $ 67,391,096 | $ - | $ 67,391,096 |
| Net change in unrealized gains, net of deferred federal excise taxes | **(17,395,763)** | **-** | **(17,395,763)** | (42,738,431) | - | (42,738,431) |
| Interest and dividend income | **5,776,514** | **-** | **5,776,514** | 6,578,984 | - | 6,578,984 |
| | **31,927,695** | **-** | **31,927,695** | 31,231,649 | - | 31,231,649 |
| Investment management expenses | **(3,950,962)** | **-** | **(3,950,962)** | (4,085,684) | - | (4,085,684) |
| | **27,976,733** | **-** | **27,976,733** | 27,145,965 | - | 27,145,965 |
| Federal grant revenue | **968,513** | **-** | **968,513** | 4,294,752 | - | 4,294,752 |
| Co-investor and partner contributions | **-** | **1,489,660** | **1,489,660** | - | 1,418,000 | 1,418,000 |
| Net assets released from restriction | **1,489,660** | **(1,489,660)** | **-** | 1,418,000 | (1,418,000) | - |
| | **30,434,906** | **-** | **30,434,906** | 32,858,717 | - | 32,858,717 |
| Program services: | | | | | | |
| Grants awarded (grant payments made were $46,257,632 in 2016 and $51,993,685 in 2015 | **47,663,366** | **-** | **47,663,366** | 53,919,620 | - | 53,919,620 |
| Program and grant management expenses | **11,641,984** | **-** | **11,641,984** | 9,633,555 | - | 9,633,555 |
| | **59,305,350** | **-** | **59,305,350** | 63,553,175 | - | 63,553,175 |
| General management expenses | **1,812,868** | **-** | **1,812,868** | 1,719,972 | - | 1,719,972 |
| Federal excise taxes | **2,259,280** | **-** | **2,259,280** | 758,916 | - | 758,916 |
| | **63,377,498** | **-** | **63,377,498** | 66,032,063 | - | 66,032,063 |
| **Decrease in net assets** | **(32,942,592)** | **-** | **(32,942,592)** | (33,173,346) | - | (33,173,346) |
| Net assets: | | | | | | |
| Beginning of year | **975,960,412** | **-** | **975,960,412** | 1,009,133,758 | - | 1,009,133,758 |
| End of year | **$ 943,017,820** | **$ -** | **$ 943,017,820** | $ 975,960,412 | $ - | $ 975,960,412 |

See notes to consolidated financial statements.

**The Edna McConnell Clark Foundation**

**Consolidated Statements of Cash Flows**
**Years Ended September 30, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Decrease in net assets | **$ (32,942,592)** | $ (33,173,346) |
| Adjustments to reconcile decrease in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | **264,279** | 266,037 |
| Deferred federal excise tax provision (benefit) | **(355,016)** | (872,213) |
| Net realized gains | **(43,546,944)** | (67,391,096) |
| Net change in unrealized gains | **17,750,779** | 43,610,644 |
| Changes in: | | |
| Interest, dividends and other receivables | **164,911** | 140,256 |
| Other assets | **1,385,403** | 3,014,040 |
| Grants payable | **74,573** | (1,132,934) |
| Other liabilities | **152,646** | (36,368) |
| **Net cash used in operating activities** | **(57,051,961)** | (55,574,980) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | **(29,857)** | (51,178) |
| Purchases of investments | **(103,961,988)** | (125,873,431) |
| Proceeds from sales of investments | **155,046,850** | 192,599,573 |
| Proceeds from program-related investment | **-** | 2,000,000 |
| **Net cash provided by investing activities** | **51,055,005** | 68,674,964 |
| **Increase (decrease) in cash and cash equivalents** | **(5,996,956)** | 13,099,984 |
| Cash and cash equivalents: | | |
| Beginning of year | **43,381,887** | 30,281,903 |
| End of year | **$ 37,384,931** | $ 43,381,887 |

See notes to consolidated financial statements.

## Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities**: The Edna McConnell Clark Foundation is a private nonprofit foundation that makes grants to help better the lives of people in low-income communities.

On December 13, 2016, the Foundation announced its plans to expend all of its financial resources over approximately the next ten years to expand and sustain the work in connection with its grant-making strategies.

**Financial statement presentation**: The financial statements have been prepared following accounting principles generally accepted in the United States of America (GAAP).

**Use of estimates**: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Limited liability company**: The Foundation has created and is the sole member of a limited liability company, Blue Meridian Partners, LLC (BMP). BMP was established in 2014. The purpose of BMP is to support the field of youth development.

**Principles of consolidation**: The consolidated financial statements include the accounts of The Edna McConnell Clark Foundation and BMP (collectively, the Foundation). Significant intercompany balances and transactions are eliminated in consolidation.

**Tax status**: The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes. However, in accordance with Section 4940(e) of the Code, the Foundation is subject to a federal excise tax of two percent of net investment income (including net realized taxable gains on security transactions) or of one percent if the Foundation meets certain specified distribution requirements. The Foundation was subject to a one percent tax for fiscal 2016 and 2015.

BMP qualifies as a tax-exempt organization under Section 501(c)(3) of the Code and is classified as a disregarded entity for tax purposes.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation, and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax positions identified or recorded as liabilities for the reporting periods presented in these financial statements.

The Foundation files forms 990PF and 990-T in the U.S. federal jurisdiction and the State of New York. The Foundation is generally no longer subject to examination by the Internal Revenue Service for fiscal years before 2013.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Social Innovation Funds**: In July 2010, the Corporation for National and Community Service (CNCS) awarded a $10,000,000 grant to the Foundation to serve as an intermediary of the Social Innovation Fund (SIF). The award requires a dollar-for-dollar match from the Foundation.
Grants were made to organizations that serve economically disadvantaged youth and were chosen in an open and competitive selection process.

In August 2012 and August 2011, CNCS awarded additional grants under the SIF. For the years ended September 30, 2016 and 2015, the Foundation incurred expenses and earned revenue related to the SIF of $968,513 and $4,294,752, respectively. SIF grant awards total $30,000,000, of which $271,810 is available to be earned and expended in the next fiscal year.

SIF grants are processed on a reimbursement basis. Expenses are incurred by the grantees before grant payments are made by the Foundation. Payments are made to the grantees once the Foundation has been reimbursed by CNCS.

**Temporarily restricted net assets**: Temporarily restricted net assets consist of net assets available for support, with donor-imposed restrictions, that may or will be met either by actions of the Foundation or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions are met or have expired.

There were no temporarily restricted net assets at September 30, 2016 and 2015.

**Cash and cash equivalents**: The Foundation defines cash and cash equivalents as highly liquid investments with original maturities of 90 days or less which include cash equivalents held in investment managers' accounts that are temporarily uninvested. The Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured (FDIC) limits. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to significant credit risk on cash.

**Investments**: Investments are carried at fair value based on either quoted prices or the observable inputs for similar instruments in active markets, or at approximate fair value, as determined by management, using the reported net asset value (NAV). Purchases and sales of securities are recorded on trade date.

The Foundation has an investment management agreement with Investure, LLC to provide investment advisory and investment management services to the Foundation. As a result of the agreement, Investure, LLC manages the Foundation's entire portfolio of investments.

The Foundation invests in various investments. Such investments are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

**Interest and dividend income**: The Foundation recognizes contractual interest on investments on an accrual basis and dividend income is recognized on the ex-dividend date.

**Interest, dividends and other receivables**: Interest, dividends and other receivables primarily consists of amounts due from CNCS.

**Other assets**: Other assets primarily consist of non-federal grant payments advanced by the Foundation to SIF grantees prior to grantees meeting required conditions.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Property and equipment**: These assets consist of leasehold improvements, furniture, equipment and software and are depreciated or amortized over their estimated useful lives or the lease period, as applicable, using the straight-line method. The amounts presented are net of accumulated depreciation and amortization of $1,421,312 and $1,193,040 as of September 30, 2016 and 2015, respectively.

**Deferred federal excise tax**: Deferred federal excise tax represents taxes provided on the net unrealized gains on investments using a rate of two percent (although when realized, such gains may be subject to only a one percent rate, as noted above).

**Awards and grants**: Unconditional awards and grants, including multi-year grants, are considered obligations when approved by the Foundation's Board of Trustees, and are then recorded in the financial statements as a liability. Grants payable due on dates greater than one year in the future are recorded net of a present value discount. The Foundation does not reflect as liabilities the amount of future years' grant commitments if they are subject to the Foundation's review and approval and other contingencies to comply with grant requirements.

**Functional allocation of expenses**: The costs of providing the program and other activities have been presented on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Expenses that are common to program services and general management are allocated based on management's determination.

**Recent accounting pronouncements**: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective. The updated standard will be effective for the Foundation's 2020 financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard will be effective for the Foundation's 2021 financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard will be effective for the Foundation's 2019 financial statements. Early adoption is permitted.

The Foundation is currently evaluating the impact of the adoption of the above standards on its financial statements.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. The amendments in ASU 2015-07 are effective for fiscal year 2017 and early adoption is permitted. The Foundation early adopted this ASU for fiscal year 2016 and the amendment was retrospectively applied to September 30, 2015. Prior year disclosures in Note 2 have been revised to reflect the retrospective application. The impact of adopting the amendments is reflected in the financial statements.

**Subsequent events**: Management of the Foundation has evaluated subsequent events for potential recognition and/or disclosure through February 27, 2017, the date the consolidated financial statements were available to be issued.

## Note 2. Investments and Fair Values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. Under the fair value hierarchy, the inputs to valuation techniques are prioritized into the following levels:

Level 1. Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation has the ability to access at the measurement date.

Level 2. Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3. Inputs are unobservable for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs would be developed based on the best information available in the circumstances and may include the entity’s own data.

Substantially all of the Foundation's other assets and liabilities, except for leasehold improvements, are considered financial instruments and are either already reflected at fair value or at carrying amounts that approximate fair value because of the short maturity of the instruments.

The Foundation assesses the levels of financial instruments at each measurement date, and transfers between levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Foundation’s accounting policy regarding recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among Levels 1, 2, and 3 during the years ended September 30, 2016 and 2015.

Investments in money market funds and U.S. Government obligations are stated at the last reported sales price on the day of valuation. Alternative investments are recorded at net asset value (NAV).

## Note 2. Investments and Fair Values (Continued)

The following tables present the Foundation's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and 2015:

| | 2016 | | |
|---|---|---|---|
| | Level 1 | Valued Using Net Asset Value (1) | Total |
| Assets | | | |
| Investments: | | | |
| U.S. Government obligations | $ 23,350,483 | $ - | $ 23,350,483 |
| Equities | 5,280,666 | - | 5,280,666 |
| Alternative investments: | | | |
| Equity long/short funds | - | 316,145,849 | 316,145,849 |
| Private equity | - | 262,911,927 | 262,911,927 |
| Multi-strategy | - | 219,767,406 | 219,767,406 |
| Credit/event driven | - | 46,744,590 | 46,744,590 |
| Fixed income | - | 28,373,939 | 28,373,939 |
| Other | - | 6,763,354 | 6,763,354 |
| | $ 28,631,149 | $ 880,707,065 | $ 909,338,214 |
| Cash and cash equivalents: | | | |
| Money market fund | $ 35,777,414 | $ - | $ 35,777,414 |

| | 2015 | | |
|---|---|---|---|
| | Level 1 | Valued Using Net Asset Value (1) | Total |
| Assets | | | |
| Investments: | | | |
| U.S. Government obligations | $ 23,365,065 | $ - | $ 23,365,065 |
| Alternative investments: | | | |
| Equity long/short funds | - | 332,784,531 | 332,784,531 |
| Private equity | - | 276,011,757 | 276,011,757 |
| Multi-strategy | - | 223,018,934 | 223,018,934 |
| Credit/event driven | - | 42,544,923 | 42,544,923 |
| Fixed income | - | 29,999,883 | 29,999,883 |
| Other | - | 6,901,818 | 6,901,818 |
| | $ 23,365,065 | $ 911,261,846 | $ 934,626,911 |
| Cash and cash equivalents: | | | |
| Money market fund | $ 29,426,677 | $ - | $ 29,426,677 |

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

## Note 2. Investments and Fair Values (Continued)

As of September 30, 2016 and 2015, the Foundation had no level 2 or 3 investments.

The following table provides a summary of the alternative investments as of September 30, 2016 and 2015, by net asset class, whose fair value is calculated using NAV per share, or its equivalent:

| | | | September 30, 2016 | | |
|---|---|---|---|---|---|
| Description | 2016 Fair Value | 2015 Fair Value | Unfunded Commitments and Recallable Capital Distributions | Redemption Frequency (if available) | Redemption Notice Period |
| Alternative investments: | | | | | |
| Equity long/short funds | $ 316,145,849 | $ 332,784,531 | $ - | Monthly - Quarterly | 100 - 120 days |
| Private equity | 262,911,927 | 276,011,757 | 278,613,197 | N/A - Annually | N/A - 180 days |
| Multi-strategy | 219,767,406 | 223,018,934 | - | Quarterly | 90 days |
| Credit/event driven | 46,744,590 | 42,544,923 | - | Annually | 180 days |
| Fixed income | 28,373,939 | 29,999,883 | - | Biennially | 60 days |
| Other | 6,763,354 | 6,901,818 | 1,000,000 | N/A - Annually | N/A - 45 days |
| | $ 880,707,065 | $ 911,261,846 | $ 279,613,197 | | |

In October 2016, the Foundation sold $5,975,000 of a private equity investment, which reduced the unfunded commitments by $86,544,237 at that time.

## Note 3. Grants

Grants payable consist primarily of multi-year unconditional grants that are generally payable over one to three years.

The Foundation also had $79,560,516 of contingent grant commitments that are not reflected as liabilities in the consolidated statement of financial position at September 30, 2016 (2015 - $47,779,476). The Foundation has conditional contributions of $30,445,480 from its partners which are expected to ultimately partially fund the contingent grant commitments.

The following schedule reconciles the total conditional and unconditional grant commitments approved by the Foundation's Board of Trustees to grants awarded expense in the statements of activities for the years ended 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Total conditional and unconditional grant commitments | $ 78,445,875 | $ 35,320,375 |
| Less conditional commitments from current year grants | (53,991,593) | (11,349,936) |
| Plus prior year conditional commitments met | 23,209,084 | 29,949,181 |
| Change in discount to present value | - | - |
| Grants as reflected in the statements of activities | $ 47,663,366 | $ 53,919,620 |

## Note 4. Retirement Plans

The Foundation maintains two defined contribution retirement plans. The first plan covers all active full-time employees. Under the terms of the plan, the Foundation must contribute specified percentages of an employee's salary and allows employees to defer a portion of their pre or post-tax salaries. The plan is currently invested in employee-designated mutual funds that have been approved by the Foundation. The Foundation's contribution to the plan was $491,093 for fiscal year 2016 (2015 - $519,649).

The second plan is a supplemental retirement plan that covers highly compensated employees. Under the terms of the plan, the Foundation makes additional retirement contributions for employees who exceed regulatory thresholds related to pensionable earnings. The plan is currently invested in employee-designated mutual funds. The Foundation’s contribution to the plan was $42,840 for fiscal year 2016 (2015 - $16,750).

## Note 5. Commitments

The Foundation leases its office space and equipment under operating lease agreements that expire on various dates through November 2019. The office space lease contains an escalation clause which provides for rental increases resulting from increases in real estate taxes and certain other operating expenses. The lease provides for two five-year renewal options. At September 30, 2016, the Foundation had the following aggregate minimum annual rental commitments under these leases:

| | |
|---|---|
| 2017 | $ 782,165 |
| 2018 | 782,165 |
| 2019 | 761,765 |
| 2020 | 123,561 |
| | $ 2,449,656 |

Rent expense was $720,054 for fiscal year 2016 (2015 - $703,964).

## Note 6. Concentration of Credit Risk

The majority of investment transactions of the Foundation are cleared and carried by the Bank of New York Mellon. The Foundation is subject to risks that this financial institution does not fulfill its obligations. The risk of default also depends on the creditworthiness of the counterparties to these transactions. The Foundation attempts to minimize this credit risk by monitoring the creditworthiness of the financial institution.